

**Todd Creek Village Metropolitan District
(Adams County, Colorado)**

FINANCIAL STATEMENTS

with Independent Auditor's Report

December 31, 2011 and 2010

Todd Creek Village Metropolitan District

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Certified Public Accountants and Business Consultants

Independent Auditor's Report

Board of Directors
Todd Creek Village Metropolitan District
Adams County, Colorado

We have audited the accompanying financial statements of Todd Creek Village Metropolitan District (the District) as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wagner Barnes & Griggs, PC

Lakewood, Colorado
September 17, 2013

I

Wagner Barnes & Griggs, PC

BASIC FINANCIAL STATEMENTS

Todd Creek Village Metropolitan District
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 295,550	\$ 197,939
Cash and cash equivalents - restricted	455,392	837,828
Accounts receivable	216,552	159,901
Prepaid expenses	15,594	15,594
Total current assets	983,088	1,211,262
Capital assets		
Water rights	6,120,501	5,907,934
Operating system and storage	52,507,014	52,394,429
	58,627,515	58,302,363
Accumulated depreciation	(8,851,475)	(7,539,972)
Total capital assets	49,776,040	50,762,391
Other assets		
Bond issuance costs (net of accumulated amortization of \$2,0160,494 and \$2,034,415, respectively)	609,280	735,359
Certificates of Participation issuance costs (net of accumulated amortization of \$112,287 and \$92,701, respectively)	132,586	152,172
Certificates of Participation discount (net of accumulated amortization of \$69,491 and \$57,372, respectively)	82,059	94,178
Deposits	12,000	-
Total other assets	835,925	981,709
TOTAL ASSETS	51,595,053	52,955,362
LIABILITIES		
Current liabilities		
Accounts payable	271,939	319,132
Accrued interest payable	907,762	349,104
Line of credit payable	949,400	949,400
Current portion of long-term debt	6,405,000	6,205,000
Total current liabilities	8,534,101	7,822,636
Long-term obligations, net current portion	21,115,000	21,580,000
TOTAL LIABILITIES	29,649,101	29,402,636
NET ASSETS		
Net investment in capital assets	28,661,040	29,182,391
Restricted	455,392	837,828
Unrestricted	(7,170,480)	(6,467,493)
TOTAL NET ASSETS	\$ 21,945,952	\$ 23,552,726

The accompanying Notes to Financial Statements are an integral part of these statements.

Todd Creek Village Metropolitan District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues		
Water revenue	\$ 1,762,846	\$ 1,944,416
(FTC) Failure to connect fees	665,897	711,902
Availability fees	111,967	131,765
Meter fees	29,200	35,725
Inspection fees	8,500	10,725
Penalties and other income	67,877	61,660
Total operating revenues	<u>2,646,287</u>	<u>2,896,193</u>
Operating expenses		
Accounting and audit	15,737	10,000
Depreciation	1,311,503	1,305,642
Directors fees	-	5,300
District management	660,000	618,000
Engineering	56,190	24,568
Insurance	13,424	11,520
Legal	397,114	329,755
Miscellaneous	12,664	5,509
MXU system	46,122	74,474
Office expense	121,005	93,443
Public relations	2,790	5,994
Repairs and maintenance	150,731	139,527
Utilities and water leases	394,469	449,813
Water treatment	27,921	54,451
Total operating expenses	<u>3,209,670</u>	<u>3,127,996</u>
Operating (loss)	<u>(563,383)</u>	<u>(231,803)</u>
Nonoperating revenue and (expense)		
Investment earnings	95,219	11,853
Amortization expense	(157,786)	(159,305)
Interest	(1,143,955)	(1,144,692)
Interest expense - certificates of participation base rental	(521,688)	(521,688)
Loan fees	(89,681)	(53,803)
Paying agent fees	(100)	-
Total nonoperating revenue and (expense)	<u>(1,817,991)</u>	<u>(1,867,635)</u>
Income (Loss) before capital contributions	<u>(2,381,374)</u>	<u>(2,099,438)</u>
Capital contributions		
Tap fees	774,600	188,000
Total capital contributions	<u>774,600</u>	<u>188,000</u>
Change in net assets	<u>(1,606,774)</u>	<u>(1,911,438)</u>
Net assets - beginning	<u>23,552,726</u>	<u>25,464,164</u>
Net assets - ending	<u>\$ 21,945,952</u>	<u>\$ 23,552,726</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Todd Creek Village Metropolitan District
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 3,364,236	\$ 3,064,659
Payments to suppliers	(1,957,360)	(1,758,260)
Net cash provided by operating activities	<u>1,406,876</u>	<u>1,306,399</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(325,152)	(405,050)
Escrow (payments) receipts for capital acquisitions	-	(50,600)
Principal paid on revenue bonds	(265,000)	-
Interest paid on certificates of participation	-	(260,844)
Interest paid on revenue bonds	(1,059,128)	(1,059,125)
Interest paid on line of credit	(47,859)	(85,567)
Other debt-related expenditures	(89,781)	(53,803)
Net cash (used) by capital and related financing activities	<u>(1,786,920)</u>	<u>(1,914,989)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received	95,219	11,853
Net cash provided by investing activities	<u>95,219</u>	<u>11,853</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(284,825)	(596,737)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,035,767</u>	<u>1,632,504</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 750,942</u>	<u>\$ 1,035,767</u>

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

Todd Creek Village Metropolitan District
STATEMENTS OF CASH FLOWS
(continued)
For the Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of operating (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ (563,383)</u>	<u>\$ (231,803)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:		
Depreciation expense	1,311,503	1,305,642
Tap fees received from customers	774,600	188,000
(Increase) decrease in accounts receivable	(56,651)	(19,534)
(Increase) decrease in deposits	(12,000)	-
Increase (decrease) in accounts payable	(47,193)	64,094
Total adjustments	<u>1,970,259</u>	<u>1,538,202</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,406,876</u></u>	<u><u>\$ 1,306,399</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Todd Creek Village Metropolitan District
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 1 – Definition of reporting entity

The Todd Creek Village Metropolitan District (the District) is a quasi-municipal corporation organized on November 19, 1996 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Adams and Weld Counties, Colorado. The District was established to provide water and wastewater services to an area encompassing approximately 6,725 acres in Adams County and 6,000 acres in Weld County.

The District has no employees and all operations and administrative functions are contracted.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

As of December 31, 2011, no component unit has been identified as reportable to the District, nor is the District a component unit of any other primary governmental entity.

Note 2 – Summary of significant accounting policies

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

The more significant accounting policies of the District are described as follows:

A. Basis of accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and certificates of participation is recorded as a reduction in liabilities. Tap fees are recorded as capital contributions when received.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Todd Creek Village Metropolitan District
NOTES TO THE FINANCIAL STATEMENTS
(continued)

December 31, 2011 and 2010

B. Operating revenue and expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statement of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

C. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

D. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value.

E. Restricted cash

Certain proceeds of the District's revenue bonds and certificates of participation, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. Restricted cash totaled \$455,392 at December 31, 2011 and \$837,828 at December 31, 2010.

F. Accounts receivable, allowance for doubtful accounts

Use fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

G. Capital assets

Capital assets, which include water rights, water wells, storage and treatment facilities and delivery systems, are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost. Capital assets are defined by the District as those assets with a cost or value of \$1,000 or greater. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Major outlays for capital assets and improvements for which the District retains title are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the estimated useful lives (40 years for water system infrastructure). The cost of water rights includes acquisition cost, legal, and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. Depreciation expense for the years ended December 31, 2011 and 2010 totaled \$1,311,503 and \$1,305,642, respectively.

H. Amortization of bond and loan costs

Bond and loan issue costs and discounts are being amortized over the respective terms of the bonds or loan using the straight-line method. Amortization expense for bond, loan, and discounts amounted to \$157,786 and \$159,305 for the years ended December 31, 2011 and 2010, respectively.

I. Budgetary information

In accordance with State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

J. Contributed capital

Tap fees and water resource fees are generally recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost or at the estimated fair value at the date of contribution.

Note 3 – Cash and investments

Cash and investments as of December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents - restricted	\$ 295,550	\$ 197,939
Cash and cash equivalents	455,392	837,828
Total cash and investments	<u>\$ 750,942</u>	<u>\$ 1,035,767</u>

Cash and investments in the amount of \$455,392 and \$837,828 was restricted at December 31, 2011 and 2010, respectively, for the payment of bond and certificate of participation interest and principal.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

A. Cash deposits

Colorado statutes require that the District use eligible public depositories as defined by the Colorado Public Deposit Protection Act (the Act). Under the Act, amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the Act and allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The State Regulatory Commissions for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk – deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposit and investment policy adopts State statutes regarding custodial credit risk for deposits. As of December 31, 2011 and 2010, none of the District's bank balance was exposed to custodial credit risk.

The District's cash deposits at December 31, 2011 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	<u>\$ 24,863</u>	<u>\$ 53,831</u>

The District's cash deposits at December 31, 2010 are as follows:

	Carrying Balance	Bank Balance
Cash deposits	<u>\$ 5,079</u>	<u>\$ 21,811</u>

B. Investments

Credit risk

The District's cash deposit and investment policy adopts State statutes regarding credit risk for investments.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of the U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Todd Creek Village Metropolitan District
NOTES TO THE FINANCIAL STATEMENTS
(continued)

December 31, 2011 and 2010

The District's money market accounts with Valley Bank & Trust, US Bank, and Summit Bank and Trust are not rated.

Interest rate risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

As of December 31, 2011 and 2010, the District had the following investments:

	<u>Maturity</u>	<u>2011</u>	<u>2010</u>
Colorado Surplus Asset Fund Trust	Weighted average under 60 days	\$ 88,890	\$ 88,792
Non-rated Money Market and Certificates of Deposit	Less than 1 year	637,152	941,858
		<u>\$ 726,042</u>	<u>\$ 1,030,650</u>

Colorado Surplus Asset Fund Trust (CSAFE)

During 2011, the District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

Concentration of credit risk

The District's cash deposit and investment policy adopts state statutes regarding concentration of credit risk for investments. The District invests primarily in money markets and/or U.S. securities, U.S. agency securities, or U.S. sponsored corporate securities, which are not subject to concentration of credit risk.

Custodial credit risk – investments

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's cash deposit and investment policy adopts state statutes regarding custodial credit risk for investments. As of December 31, 2011 and 2010, the District had \$726,042 and \$1,030,650, respectively, of investments held by outside parties.

Todd Creek Village Metropolitan District
NOTES TO THE FINANCIAL STATEMENTS
(continued)

December 31, 2011 and 2010

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Water rights	\$ 5,907,934	\$ 212,567	\$ -	\$ 6,120,501
Capital assets, being depreciated:				
Water distribution and storage	47,461,577	-	-	47,461,577
Sewer system	4,932,852	112,585	-	5,045,437
Accumulated depreciation	(7,539,972)	(1,311,503)	-	(8,851,475)
Total capital assets, being depreciated, net	44,854,457	(1,198,918)	-	43,655,539
Capital assets, net	<u>\$ 50,762,391</u>	<u>\$ (986,351)</u>	<u>\$ -</u>	<u>\$ 49,776,040</u>

Note 5 – Long-term debt and related subsequent events

A. Changes in long-term debt

The following is an analysis of changes in bonds and loans payable for the year ended December 31, 2011:

	Balance 12/31/2010	New Issues	Principal Payments	Balance 12/31/2011	Due within one year
Series 2004 Bonds	\$19,125,000	\$ -	\$265,000	\$18,860,000	\$5,085,000
Series 2006 Certificates of Participation	8,660,000	-	-	8,660,000	1,320,000
Total	<u>\$27,785,000</u>	<u>\$ -</u>	<u>\$265,000</u>	<u>\$27,520,000</u>	<u>\$6,405,000</u>

B. Bonds payable

\$25,575,000 Water Revenue Refunding and Improvement Bonds, Series 2004, dated December 27, 2004

The bonds are term bonds in the amount of \$25,575,000 maturing through December 2019. The bonds were issued to finance the construction, installation and completion of improvements to the water supply, purification, transmission and distributions system, wastewater lift station, force main and interceptor trunk line, and to refund and discharge the outstanding District revenue bonds as well as other District obligations. The bonds bear interest from 4.75% to 6.125% per annum payable semi-annually on June 1 and December 1.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

The bonds are subject to redemption prior to maturity, at the option of the District, as allowed under a *"Special Mandatory Redemption"* provision whereby the District, from sources other than borrowed funds or funds derived from refunding or refinancing of the Series 2004 Bonds, may redeem certain bonds at a price equal to the principal amount plus accrued interest. Accordingly, bonds with an original maturity date of December 1, 2009 may be redeemed no earlier than December 1, 2005, bonds maturing on December 1, 2014 may be redeemed no earlier than June 1, 2008, and bonds maturing on December 1, 2019 may be redeemed no earlier than June 1, 2010.

Alternatively, the bonds are subject to redemption prior to maturity, at the option of the District, redeemed with borrowed funds beginning on December 1, 2012, and on any date thereafter, upon payment of par and accrued interest, with a redemption premium through November 30, 2014, and without a redemption premium thereafter.

The bonds are payable solely from and secured by an irrevocable pledge of and first lien upon the "pledged revenue" as defined in the bond indenture. Additional security for the bonds is provided by a "debt service reserve fund" and by the Standby Tap Purchase Agreement dated as of December 27, 2004; between the District and Osborne Holding Corporation, owner of The Equinox Group LLC (the Developer), a Colorado limited liability company, whose affiliates owned or controlled, at the date of the agreement, approximately 58% of the property to be served with water services and facilities by the District (the Developer owned approximately 1% of the property served by the District at December 31, 2011), and the individual principal of the Developer.

With respect to "pledged revenue" that may be derived by the District's water system, the Developer and its principal have entered into a Standby Tap Purchase Agreement whereby the Developer and its principal have guaranteed the payment of principal and interest on the bonds in the event that "pledged revenues" are insufficient in any year. The Developer and its principal agree, jointly and severally, to purchase water and wastewater taps from time to time in the amount necessary to pay when due the scheduled amounts of principal and interest with respect to the Series 2004 bonds. The Trustee issued a demand letter on November 9, 2009 calling on the Developer and its principal to fulfill its obligation under the Standby Tap Purchase Agreement to assist the District in making bond interest and principal payments. Due to economic conditions, neither the Developer nor its principal was able to purchase taps to provide funds for payment of bond interest and principal on December 1, 2009. Consequently, the District withdrew funds from the Bond Reserve Fund in 2011, 2010, and 2009 to satisfy the required interest payments.

Forbearance Agreement / Event of Default

Due to insufficient pledged tap fee revenue, \$5,350,000 of bond principal payments for maturities that were originally due on December 1, 2009 were not paid on that date, and \$5,085,000 remains unpaid as of the date of the auditors' report (event of default). The District entered into a Forbearance Agreement (the Forbearance) with the Bond Trustee on December 1, 2009, whereby 100% of the bondholders of the 2009 maturities agreed to defer redemption of the bond principal to June 1, 2011. Under the terms of the Forbearance, the District, among other requirements, must:

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

1. continue to pay interest in a timely manner to all holders of the Series 2004 Bonds;
2. maintain the Bond Reserve Fund at a minimum of \$1,000,000 on and after December 1, 2009;
3. maintain the COPS Reserve Fund after December 1, 2009 at or below \$351,000;
4. not cause a condition of default under the COPS Indenture;
5. impose an Availability of Service Fee and deposit the proceeds with the Trustee;
6. impose a Failure to Connect Fee and deposit with the Trustee amounts in excess of those necessary for operations;
7. not make capital expenditures in excess of \$250,000;
8. not expend more than \$2,483,901, \$2,733,433, and \$2,958,724 for the years ending December 31, 2009, 2010, and 2011, respectively;
9. not incur any additional indebtedness;
10. not dispose of any assets other than in the ordinary course of business, and certain water rights.

The District did not make certain required minimum rental payments in 2010 and 2011, which is an event of default under the COPS agreement, thereby violating requirement number 4 above. Further, in 2010, the District withdrew \$546,997 from the Bond Reserve Fund to make bond interest payments, which is an event of default under the Forbearance Agreement (number 2 above). And in 2011, the District withdrew an additional \$491,350 from the Bond Reserve to pay 2011 bond interest payments leaving a balance of \$252,114. The balance of the Reserve Fund as of June 30, 2013 was \$252,250. During 2010, 2011, and 2012 the District made deposits of \$160,000, \$570,200, and \$749,500, respectively, from tap fee revenue to the pledged tap fee fund.

The forbearance agreement expired June 1, 2011, and the District, as of the date of the auditors' report, is continuing to communicate with the Bond Trustee to reach closure on a new forbearance agreement with the Bond Trustee and bondholders.

C. Certificates of participation (COPS)

The District entered into a lease purchase agreement for a principal amount of \$8,660,000, dated May 18, 2006, with Todd Creek Farms Metropolitan District No.1 Water Activity Enterprise Leasing Trust 2006 (the Trust). The Trust acts as lessor, and the District acts as lessee. The Trust was created by the Trustee (Zions First National Bank, Denver, Colorado) pursuant to a trust indenture and laws of the State of Colorado. The proceeds of the issuance of the COPS are used to fund the acquisition of water rights and the acquisition, construction and installation of various water and non-potable water facilities. The Trust leases such water rights and facilities to the District pursuant to a 16.5-year lease agreement. Base rentals under the lease agreement are sufficient to cover the payments of principal and interest on the certificates, and all trustee costs. The District may elect at any time to purchase the property from the Trust in an amount sufficient to redeem, pay, and defease all outstanding COPS. At the termination of the lease, ownership of all assets reverts to the District. The obligations of the District under the lease are not secured by a pledge or lien on any revenues or funds of the District, and are payable on a parity basis with other general unsecured capital obligations of the District. The obligations of the District under the lease are subject to a pledge of certain District property constructed with the proceeds of the COPS.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

The COPS bear interest at rates ranging from 5.75% to 6.125%. They are subject to optional redemption on December 1, 2012 and thereafter at prices ranging from par to par plus a 2% premium. Certain certificates are subject to a mandatory sinking fund beginning on December 1, 2010.

The District accounts for proceeds of the issuance of the COPS as debt proceeds, and reports all assets of the trust and all outstanding COPS on its financial statements. Rental payments to the Trust are reported as interest expense and principal reductions by the District.

The District did not make required minimum rental payments of \$675,845 in 2010, \$937,825 in 2011, or \$937,828 in 2012, nor any catch-up payments during those periods. This constitutes an event of default under the COPS agreement. As of the date of the auditors' report, the District is communicating with the Trustee for the COPS holders in order to obtain a Forbearance Agreement.

D. Debt maturities

Debt maturities for the next five years and to maturity, based on the above agreements with Trustees, are as follows:

Year ended December 31,	Principal	Interest	Total
2012	\$ 6,405,000	\$ 1,514,506	\$ 7,919,506
2013	490,000	1,250,788	1,740,788
2014	7,895,000	1,222,613	9,117,613
2015	550,000	779,713	1,329,713
2016	585,000	746,025	1,331,025
2017-2021	9,895,000	2,364,250	12,259,250
2022	1,700,000	104,121	1,804,121
Total	<u>\$ 27,520,000</u>	<u>\$ 7,982,016</u>	<u>\$ 35,502,016</u>

E. Refunding

On December 27, 2004, the District advance refunded and defeased (debt legally satisfied) \$12,500,000 of its Water Revenue Refunding and Improvement Bonds dated November 1, 2001 by portions of the proceeds from the issuance of \$25,575,000 Water Revenue Refunding and Improvement Bonds, dated December 27, 2004 with an interest rate ranging from 4.75% to 6.125%. \$6,200,000 of the bonds were redeemed outright and \$6,300,000 were defeased. The defeased bonds are not considered a liability of the District since sufficient funds (\$6,751,058) were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds when due.

Note 6 – Line of credit

During 2011 and 2010, the District had a \$1,000,000 line of credit agreement with Valley Bank & Trust which matured November 3, 2010 and was extended to August 3, 2011. No further extension was signed. The credit agreement provided for monthly interest payments at 8.5%. Borrowings under this note agreement are secured by a deed of trust on the District's water rights and storage facilities. Additional security for this agreement is provided by a guarantee

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

from the individual principal of the Developer. At December 31, 2011 and 2010, the outstanding balance was \$949,400.

On August 29, 2011, the District filed a complaint against Valley Bank and Trust Company (“the Bank”) seeking a declaratory judgment from the Adams County District Court that the line of credit and collateral pledge were void as a matter of law under Article XI, Section 6 of the Constitution of the State of Colorado. Following a trial on the merits on January 13, 2012, and submission by the parties of proposed conclusions of law on February 6, 2012, the Court, on March 19, 2012 entered its Findings of Fact, Conclusions of Law and Order and Judgment in the District’s favor, declaring, as a matter of law, that the line of credit and security pledges were void and unenforceable. The Bank filed an appeal of the Court’s ruling on June 19, 2012, on which no court ruling has been issued.

Note 7 – Net assets

The District has net assets consisting of three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, loans, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those net assets. As of December 31, 2011 and 2010, the District has invested in capital assets, net of related debt of \$28,661,040 and \$29,182,391, respectively. The District had \$455,392 and \$837,828 restricted by contractual obligation for payment of debt service as of December 31, 2011 and 2010, respectively.

Note 8 – Related parties

The majority of the District’s Board of Directors are either stockholders or employees of The Equinox Land Group, Inc. (the Parent Company). The Parent Company owns Village Water Management, LLC (the Company), with which the District entered into an agreement to perform administrative duties, maintain and administer operations, and handle the financial affairs of the District. The contract expires in 2014, but is subject to the District’s annual budget and appropriation. During the years ended December 31, 2011 and 2010, the District paid \$660,000 and \$618,000, respectively, to the Company under this agreement.

The individual principal of the Developer owned 50% of the Parent Company through December 31, 2009. Effective January 1, 2010, the individual principal of the Developer sold his interest in the Parent Company to the remaining stockholder, who is on the Board of Directors of the District.

The District is assessed a 10% construction management fee by a construction company, owned by the Parent Company, on all construction costs. Total amounts paid to the construction company in construction management fees for the years ended December 31, 2011 and 2010 were \$0 and \$21,072.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 9 – Water agreements

Water Lease Agreements

On January 1, 2004, the District entered into two Water Lease Agreements with Coors Brewing Company (Coors), both renewable annually until December 31, 2006. Under the terms of the agreements, the District received the right for a minimum of 250 acre feet of Leased Water at a rate of \$175 per acre foot in 2005 and \$200 per acre foot in 2006, with minimum annual payments of \$45,500 and \$52,000, respectively, payable on January 1 each year.

Effective January 1, 2008, the District renewed its two Water Lease Agreements with Coors, both now terminating on December 31, 2011 (initial term). Both Agreements were renewed for an additional five year term ending December 31, 2016.

Under the terms of the first Agreement, the District will receive the right to 100 acre feet of Leased Water at the following per acre foot rates: 2009, \$275; 2010, \$300; and 2011, \$325. The minimal annual payments are as follows: 2009, \$27,500; 2010, \$30,000; and 2011, \$32,500, payable on January 1 each year.

Under the terms of the second Agreement, the District will receive the right to 250 acre feet of Leased Water at the following per acre foot rates: 2009, \$275; 2010, \$300; and 2011, \$325. The District agrees to pay a minimum amount each year equal to the cost of 160 acre feet of Leased Water. The minimal annual payments are as follow: 2009, \$44,000; 2010, \$48,000; and 2011, \$52,000, payable on January 1 each year.

Note 10 – Commitments and contingencies and related subsequent events

Commitments

Effective March 1, 2009, the District entered into an operating lease ending February 28, 2014 for its administrative offices. The lessor is an entity related to the Developer. The rental rate is \$3,080 per month, on a triple-net basis whereby the District pays taxes, maintenance and repairs, and insurance. Minimum base rental payments, including expected property taxes, due for the next five years and in total are as follows:

Year ended		
<u>December 31</u>		
2012	\$	41,676
2013		41,676
2014		6,946
Total	\$	<u>131,974</u>

During 2010, the District was named as defendant in a lawsuit seeking injunctive relief requiring the District to repair a reservoir within the District's boundaries. On May 26, 2012, the District Court entered an order awarding interim costs in the case. The interim costs awarded to the plaintiff were in the amount of \$59,638. The District filed a motion for reconsideration in the matter and the District Court ruled that the District could not be held liable to the plaintiff for costs. On June 27, 2012, the District filed an appeal of the trial court's ruling. On July 11, 2013, the Court of Appeals denied the District's appeal and affirmed the trial court's judgment. The District has filed a Writ of Certiorari asking the Colorado Supreme Court to review the Court of Appeal's ruling.

Todd Creek Village Metropolitan District

**NOTES TO THE FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 11 – Risk management

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God. The District maintains commercial insurance for all risks of loss. Settled claims have not exceeded the commercial insurance coverage limits in any of the past three years.

Note 12 – Tax, spending and debt limitations

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

The District's management believes it qualifies under the Water Activity Enterprise definition of TABOR and therefore is not subject to the requirements of TABOR. However, TABOR is complex and subject to interpretation.

Note 13 – Restatement/Funds available

"Funds available" in the Statement of Revenue, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis) as of December 31, 2010 were restated from \$2,885,325 to \$1,158,192 to account for classification of certain current and noncurrent assets and liabilities. Due to the uncertainty of the District's debt repayment schedule, funds available (actual) at December 31, 2011 is defined in the Statement of Revenue, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis) as cash, plus accounts receivable, less accounts payable.

Note 14 – Noncompliance with Colorado Revised Statute

Colorado Revised Statutes require that local governments submit audited financial statements for calendar year-end by July 31, or September 30 if granted an extension, of the following year. The District was not in compliance with the statutory requirement.

SUPPLEMENTAL INFORMATION

Todd Creek Village Metropolitan District
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS
AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended December 31, 2011

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
ENTERPRISE:			
Revenues			
Water revenue	\$ 2,067,500	\$ 1,762,846	\$ (304,654)
(FTC) Failure to connect	675,000	665,897	(9,103)
Availability fee revenue	65,000	-	(65,000)
Meters	40,000	29,200	(10,800)
Inspection fees	15,000	8,500	(6,500)
Tap fees	336,000	94,000	(242,000)
Investment earnings	50	579	529
Penalties and other income	85,000	67,877	(17,123)
Total revenues	<u>3,283,550</u>	<u>2,628,899</u>	<u>(654,651)</u>
Expenditures			
Accounting and audit	10,000	15,737	(5,737)
Administration	80,000	121,005	(41,005)
Bond issuance costs	15,000	100	14,900
Directors fees	6,000	-	6,000
District management	860,000	660,000	200,000
Emergency reserve	86,625	-	86,625
Engineering	27,500	56,190	(28,690)
Insurance	15,000	13,424	1,576
Interest	85,000	47,859	37,141
Lease payment	937,825	521,688	416,137
Legal	200,000	397,114	(197,114)
Loan fees	-	89,681	(89,681)
Miscellaneous	10,600	12,664	(2,064)
MXU system	65,000	46,122	18,878
Community relations	7,000	2,790	4,210
Raw water acquisition	275,500	-	275,500
Repairs and maintenance	115,000	150,731	(35,731)
Utilities	170,000	394,469	(224,469)
Water treatment	50,000	27,921	22,079
Total expenditures	<u>3,016,050</u>	<u>2,557,495</u>	<u>458,555</u>
Excess of enterprise revenues over (under) enterprise expenditures	267,500	71,404	(196,096)
Funds available (deficit) - beginning enterprise fund	<u>(262,066)</u>	<u>(82,519)</u>	<u>179,547</u>
Funds available (deficit) - ending enterprise fund	<u>\$ 5,434</u>	<u>\$ (11,115)</u>	<u>\$ (16,549)</u>

(continued)

Todd Creek Village Metropolitan District

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS
AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
(continued)

For the Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Favorable (Unfavorable)
GENERAL GOVERNMENT:			
Revenues			
Tap fees and availability of service fees	\$ 2,748,445	\$ 792,567	\$ (1,955,878)
Investment earnings	10,000	94,640	84,640
Total revenues	<u>2,758,445</u>	<u>887,207</u>	<u>(1,871,238)</u>
Expenditures			
Debt service:			
Interest	1,059,126	1,096,096	(36,970)
Principal	1,778,319	-	1,778,319
Capital Outlay:			
Other	200,000	212,567	(12,567)
Operating system and storage	-	112,585	(112,585)
Total expenditures	<u>3,037,445</u>	<u>1,421,248</u>	<u>1,616,197</u>
Excess of general government revenues over (under) general government expenditures	(279,000)	(534,041)	(255,041)
Funds available (deficit) - beginning general government	<u>3,537,491</u>	<u>3,147,391</u>	<u>(390,100)</u>
Funds available (deficit) - ending general government	<u>\$ 3,258,491</u>	<u>\$ 2,613,350</u>	<u>\$ (645,141)</u>
Total district revenues	\$ 6,041,995	\$ 3,516,106	\$ (2,525,889)
Total district expenditures	<u>6,053,495</u>	<u>3,978,743</u>	<u>2,074,752</u>
Total excess of revenue over (under) expenditures	(11,500)	(462,637)	(451,137)
Funds available (deficit) - beginning - actual column restated	<u>3,275,425</u>	<u>1,158,192</u>	<u>(2,117,233)</u>
Funds available (deficit) - ending	<u>\$ 3,263,925</u>	<u>\$ 695,555</u>	<u>\$ (2,568,370)</u>

Todd Creek Village Metropolitan District

RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2011

REVENUE (BUDGETARY BASIS)	\$ 3,516,106
Total revenue (GAAP basis)	<u>3,516,106</u>
EXPENDITURES (BUDGETARY BASIS)	3,978,743
Add:	
Depreciation	1,311,503
Amortization	157,786
Less:	
Capital outlay	<u>(325,152)</u>
Total expenses (GAAP basis)	<u>5,122,880</u>
CHANGE IN NET ASSETS PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	<u>\$ (1,606,774)</u>

Todd Creek Village Metropolitan District
DEBT SERVICE REQUIREMENTS TO MATURITY

December 31, 2011

Bonds and Certificates and Interest Maturing in the Year Ending December 31,	\$25,575,000 Revenue Refunding and Improvement Bonds Dated December 27, 2004		\$8,660,000 Certificates of Participation Dated May 25, 2006 Base rentals are due May 15 and November 15 Principal Payable on June 1 and December 1		Total
	Principal	Interest	Principal (1)	Interest (1)	
2012	\$ 5,085,000	\$ 805,000	\$ 1,320,000	\$ 709,506	\$ 7,919,506
2013	-	805,000	490,000	445,788	1,740,788
2014	7,375,000	805,000	520,000	417,613	9,117,613
2015	-	392,000	550,000	387,713	1,329,713
2016	-	392,000	585,000	354,025	1,331,025
2017	-	392,000	620,000	318,194	1,330,194
2018	-	392,000	655,000	280,219	1,327,219
2019	6,400,000	392,000	695,000	240,100	7,727,100
2020	-	-	740,000	197,531	937,531
2021	-	-	785,000	152,206	937,206
2022	-	-	1,700,000	104,121	1,804,121
	\$ 18,860,000	\$ 4,375,000	\$ 8,660,000	\$ 3,607,016	\$ 12,267,016
					\$ 27,520,000
					\$ 7,982,016
					\$ 35,502,016

(1) Note: This payment schedule is according to the original payment schedule for Certificates of Participation. It does not reflect changes that may be negotiated or required during 2012.